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SHALL SILVER BE DEMONETIZED?

THE people of the United States never have used silver as a circulating medium, and they have shown that they do not want to use it unless at such a ratio to the old standard of value that the debtors of the moment can win a percentage on their contracts. From 1792 to 1834, under a "double-standard" law, they used silver as a standard of value, but no silver dollars were coined from 1806 to 1836. Bank notes only were used, and there never was any test whether the people would like silver dollars as a circulating medium or not. In 1834 the rating under the double standard was changed so that the gold dollar became the standard, the change involving a depreciation of 2½ per cent. in the standard of contracts. The change was made to favor the gold-mining industry of North Carolina and Georgia, just as the law of 1878 was made to favor the silver-mining industry. In 1853 silver was demonetized, except the dollars. In 1873 the dollars were demonetized, never having existed as a circulating medium. Neither the United States nor any other country ever had a concurrent circulation of the two metals. Such a thing is as impossible as perpetual motion, and it makes no difference how large the coinage union may be that tries to enact it.

It is remarkable that, although money is one of the oldest human inventions, and one of the most important, there is none

that has been perfected so slowly, and is yet so far from satisfactory. Three or four thousand years ago the Chinese were struggling with the problem of a concurrent circulation, trying to use iron and copper coins side by side. The Persians advanced from silver to gold when the extent of their commerce made the latter more convenient. The Greeks did the same. The Romans went from copper to silver, and from silver to gold, as the same expansion took place. In the Middle Ages, as the trade and industry of Europe shrank, gold went out of use, and in Charlemagne's time silver was readopted. Within a century or two there has been another reversion to gold on the part of the leading nations, and in the order of their industrial rank. During all this period the perplexities arising from the inconvenience of dispensing with either metal, and the difficulty of rating them properly, if used together, have surpassed human ingenuity. There is not yet a single nation that has a simple, safe, secure, and sound system of money, free from wasteful loss and wear, and furnishing trade with such a medium and standard as convenience requires.

Our law of 1873 would have given us as good a monetary system as any nation now has, but in 1878 the silver dollar was arbitrarily restored. The law-maker has nothing to do with the mint, except to provide that it shall be ready to coin metal into such shapes and sizes as public convenience calls for. There never was any call for the silver dollar. The people have plainly shown, during seven years, that they do not want silver as a circulating medium. If the experiment ever was justifiable, it is now certainly complete, and those that made it are bound to abide by it. Even M. Cernuschi, who certainly has been fanatical enough on this question, now concedes that there is nothing to do but to widen the use of the larger silver coins by making them subsidiary with a limited legal tender. It seems to me that that would be a wise and proper course under the existing state of things until the readjustments due to the fall in silver can come about.

Silver is not wanted to-day as a circulating medium by any civilized nation. Each of them wishes that the others would use silver, but no one of them is willing to do so itself, except the United States. England and Germany blame the Latin Union for closing their mints just when the beneficent action of the double standard was wanted; but the Latin Union declined to be at the expense of serving their convenience. The United

States, however, stepped forward and said, Let us do it for you. The Latin Union blames Germany for demonetizing silver and making all the trouble, and blames the Scandinavian nations for taking the same step at the same time; but the movement was inevitable, and its simultaneousness was due to the fact that the last to adhere to silver would lose most. The United States had no silver, owned no India or other dependence interested in silver, and had no share in the trouble or risk, but we voluntarily put ourselves in the way of the worst of it.

M. de Laveleye has just published another argument to prove that we all ought to restore bimetallism. It is a strange proof of the perversity of mind that a whim of this kind will produce. The facts of the past ten years prove that the double standard of France and the Latin Union, instead of being a beneficent device, has been a source of mischief just so far as it has interfered with the free distribution of the precious metals under the laws of value. Every such interference is temporary, and produces reactions that are sudden and violent and apparently capricious. We are now suffering from just that reaction, and the Bland bill, so far as it perpetuates another and continued interference with the world's market for silver, prolongs and intensifies the mischief. The fact that no nation, except the United States, is willing to use silver, is the plainest proof that the fall in silver is not accidental, nor due to anybody's whim, but is due to economic forces of unmistakable direction and scope. To restore bimetallism would be to fly in the face of the very facts of the situation by which we should be instructed. The movement against silver as a circulating medium is one that cannot be reversed, but must go on until it develops into a new order of things in which the passing inconvenience will all disappear. To stop it would be like throwing a machine out of use because of the temporary inconvenience to capital and labor that every improvement causes. It has been my opinion that Asia and Africa were about to be opened to commerce, and that silver money would be needed to sustain that development. If so, the cheapening of silver would be a favorable event.

If, then, the people of the United States do not want silver as a circulating medium, for what do they want it? What is the object in getting it? At present, if the Treasury calls the silver coins "dollars," and compares them with the cost of the bullion, it stands to win several million dollars. But if it tries to realize this gain by exchanging the silver coins for gold dollars' value,

it cannot do it. If we, the people, have to give a gold dollar's value for a coin, we see no reason why we should not buy a gold dollar, and have what we pay for. If the Treasury sells its silver coins freely, it will find that, by the time it has marketed all its stock, it will have lost all its gain, and perhaps more. Then, however, we shall have altered our standard of value, not without a convulsion of our entire industry and finance. But eighty-five cents' worth of silver will then be worth just eighty-five cents. How will anybody be benefited by this, except those that are debtors when the change takes place, provided they can survive the intervening convulsion? If that would be a benefit to anybody, we can accomplish it far more easily and safely by reducing the weight of the gold dollar fifteen per cent.

But it is said that we shall not have money enough, or the world will not have money enough, if silver is not used as a circulating medium. Nothing can give us either more or less in value than our proportion of the world's money. If we use silver, or paper, we must give up gold. If we are thinking of the world's supply, then we must go to the expense of putting all the silver into the world's stock, for the sake of increasing our stock of money by our share of that additional supply when it comes back to us, in the ratio of our money-supply to the world's money-supply. The experience of the past ten years ought to have shown us that the old-fashioned mode of reasoning about the amount of money in the world, gold-supply, prices, etc., is no longer applicable. Specie is more and more important every year as a measure of value, and less and less important as a medium of exchange.

But it is most of all on account of the mischievous effects that would be produced on the measure of value, that the use of silver would be a calamity. The silver dollar would not stay at eighty-five cents. It would bear some other ratio to the gold dollar. Instead, therefore, of using the true and ultimate standard in all its severity and highest utility, we should come to it to be sure at last, but always through an intervening step involving doubt, risk, and loss. The more perfect any of our processes are, the more valuable is perfection in the standard of measurement. This is as true of money as of anything else, and an imperfection in our measure of value would put us at permanent disadvantage with all our rivals and competitors. The result is, that we do not want or need silver as a circulating medium, and shall not abandon it, because we never have had it.

If we want silver in order to bury it in the ground, it must be in order to make a market for it. In that case, the market will react only so much more severely whenever we withdraw. If we want it in order to take advantage of our creditors, that is why so few are now willing to become creditors, and why industry and commerce are stagnant.

W. G. SUMNER.

I SHALL here address myself solely to the question, whether those who have held the doctrine of International Bimetallism should now definitely abandon the effort to secure the concurrence of European nations in a convention for the free (not necessarily gratuitous) coinage of silver into money of full debt-paying power, at some fixed ratio to money of gold, presumably 15½ to 1. In behalf of the continued coinage of the silver dollar I have not a word to say, regarding it as adverse to the true interests of international bimetallism. To the bimetallists that took part in the Paris Conference of 1878 it appeared that, if anything were to be done to avert the disasters apprehended from gold monometallism, it must be done then, straight away. It was not only intolerable that mankind should continue to suffer the evils already experienced from silver demonetization, but it seemed that, should the present effort fail, the logical effects of Germany's action in 1871-3 must rapidly proceed, through a series of tremendous shocks to trade and industry, to a conclusion that would make it hopeless thereafter to attempt to rehabilitate silver. It is perhaps unavoidable that those who are to take part in any contest should exaggerate the importance of individual actions, deeming each in succession to be critical and decisive. But nature is more tolerant; the order of things is too large and too well balanced to be permanently overborne by a single shock. Since 1878, alike the course of the production of the precious metals, the experiences of trade and industry, and the growth of opinion, have combined not only to give a new opportunity for the discussion of the bimetallic principle, without prejudice from previous failure, but to add force to every argument that seven years ago was urged in its favor. When the Conference of 1878 adjourned without day and without result, the anticipations of financiers and economists regarding the future of the two metals were shaped and colored by the astonishing yield of the silver mines of the United

States, and by the seeming repletion of India, traditionally the greatest consumer of that metal. But these anticipations only afford another example of the failure of philosophers to do justice to "the modesty of nature." The Comstock is as dead as Cæsar, and although Leadville has been discovered, the demand for silver, in spite of the closing of the Latin mints to that metal, and its demonetization by Germany, has been such as to hold its price well up, fairly within the reach of the European states, should they choose to resume its coinage. While thus the recent course of silver production has been such as to place the bimetallic scheme under no heavier burden than in 1878, the course of gold production, on the other hand, has been such as to convey a most impressive warning against persistence in gold monometallism. With a demand for new gold for use in the arts, for keeping up the stock of money metal, and for enlarging this to meet the growing wants of commerce, which the London "Economist," even fifteen years ago, estimated at $150,000,000 a year, and which is unmistakably increasing with great rapidity, in spite of paper money and the check system,—in the face of such a demand for new gold, we have the ghastly fact of an annual production little, if anything, above $100,000,000, threatening mankind with the monstrous evils of a diminishing circulation, regarding which I may here repeat my language in the Conference of 1878: "Suffocation, strangulation, are words hardly too strong to express the agony of the industrial body, when embraced in the fatal coils of a contracting money-supply."

Secondly, the experiences of trade and industry, during the past seven years, have been such as strongly to emphasize the arguments in favor of bimetallism presented at the Conference of 1878. At that time the United States, and the commercial world generally, were in a state of restricted production, following a financial collapse. It was reasonably urged that the existing condition had been brought about, or, at least, greatly promoted, by the German demonetization of silver. But this the monometallists denied; and the connection between the alleged cause and the situation in 1878, was, it must be confessed, not so clear as to compel assent. Within two years thereafter occurred a revival of production. Strangely enough, even at the height of this movement, prices, except in the case of a few highly speculative commodities, did not advance to the level of the period preceding 1873, but, on the contrary, persisted in remaining, in general, far below that level. Scarcely four years

more had elapsed, when signs of serious derangement in business were again manifested, world-wide; and now, after five scant years of industrial prosperity, uneasy and troubled at the best, we find ourselves, in 1885, in the midst of a crisis of unusual severity, with prices extraordinarily and persistently low. Such an experience is of a nature to compel attention to the question of the restoration of silver to the monetary function it performed prior to the German change of standards. Has it come to this, that the interval between industrial crises is to be shortened from the traditional ten years to five? and that, even in the center of the period, at the very crest of production, money is to bear a constantly increasing purchasing power? These bitter experiences of trade and industry are not only in precise accord with what was predicted by the bimetallists of 1878, but they are unerringly to be traced, in no small part, to the wanton mischief perpetrated by Germany between 1871 and 1873.

The most immediate effect of any reduction of the money-supply is to cut into the profits of the employing class. Diminishing, as this does, the possible gains, and increasing the possible losses, of business, it makes the employer slow, cautious, and timid in all enterprises involving large expenditures for labor and materials. The effect next experienced is the enhancement of the burden of all debts and fixed charges, acting as a steady drag upon production. But these are not all or the worst effects of the demonetization of silver. By the defeat of the bimetallic scheme, that par of exchange between silver-using and gold-using states which the beneficent action of France and her monetary allies had for seventy years maintained, to the inexpressible advantage of the whole commercial world, has been destroyed, at a blow.

It would be as idle, as it would be dishonest, for the monometallists to seek to disparage the importance of this consideration, since the very arguments by which they have proven the grave, the momentous evils of an irredeemable paper money, of local circulation, non-exportable, inconvertible into the money of the world's commerce, will also serve, without qualification or alteration, to prove the grave, the momentous evils of destroying that par of exchange, that normal price of gold in terms of silver, that normal price of silver in terms of gold, which was established and approximately maintained by the operation of the French law of 1803. The London "Economist,"

the first financial journal of the world, has frankly confessed that exchange between England and India has been made so highly speculative as to place trade under the greatest disadvantage. A letter that I have received, while penning the last page, from a gentleman occupying one of the most important chairs of political economy in England, contains the following significant remark: "I am increasingly convinced of the importance of the standard-of-value question in relation to this prolonged and, I fear, increasing depression."

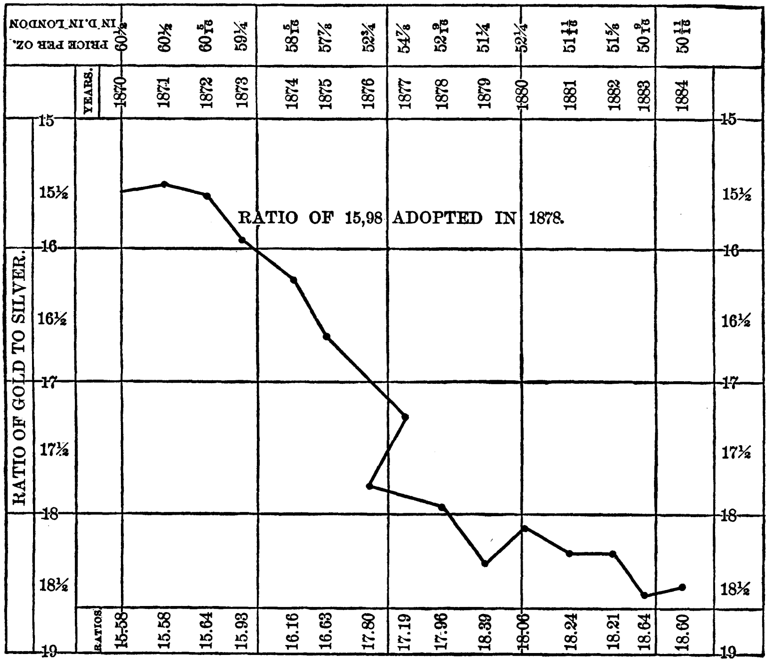
That, thirdly, the movement of public opinion since 1878 has been altogether favorable to a reconsideration of the action that effected the demonetization of silver, does not require formal proof. It is to be seen on every hand. Perhaps the strongest evidence of change that could be adduced is the recent admission of Professor Sumner, who, while declaring a concurrent circulation of gold and silver to be both "a scientific absurdity and a practical impossibility," concedes that an alternate standard "contains no scientific absurdity," the question of adopting it being purely one of expediency. For so much, thanks! I should be glad, did space permit, to confute the former opinion, and to show that a concurrent circulation would be perfectly feasible. But it must suffice to say that, whatever may be true of a concurrent circulation, an alternate circulation will answer the needs of commerce wonderfully well. The tide alternately rises and falls within our harbors; yet vessels lie at the wharves undisturbed, and load or unload, at ebb or at flood, without interruption and without damage, because the rise and the fall are confined within narrow limits. At six feet, the alternation does no harm; at sixty, it would compel the abandonment of every harbor on our coast. Likewise the bimetallic system, between 1803 and 1873, if it did not wholly extinguish fluctuations in value between gold and silver, did assuredly keep those fluctuations within limits that were compatible with the safe and sound conduct of business. That tie broken, by the insensate folly of Germany, we know too well what store of woes has been opened for the trade of Europe, Asia, and America.

FRANCIS A. WALKER.

INASMUCH as an international agreement on our present ratio of 1 to 15.98 is quite improbable, so far as the United States is concerned, we must either change our mint ratio to suit the

present market rate (about 1 to 18.7), or suspend the coinage of silver dollars altogether. The latter alternative is the immediate question with us, and I shall confine myself briefly to reasons for the repeal of the Act of 1878. Some of the evils to be feared from the continuance of our present policy may be summarized as follows: First, Silver will be a fluctuating standard. Second, Gold will disappear from circulation. Third, The credit of the United States will be impaired. Fourth, There will be a demoralizing change of prices. Fifth, The laboring classes will suffer.

First. Gold and silver have been selected by the common consent of the world as the materials of money, because, although they have not remained absolutely stable in value, they have shown less change than any other commodities. Of the two, silver has appeared capable of by far the greater variations in value, wholly apart from the causes of these variations. This has been a marked characteristic of silver in the past few years. The accompanying chart will make clear what a



dance this metal has kept up in the past fifteen years, and that it has danced most in a downward movement. No medium so unstable as this has now become, can serve a business community. It will transfer legitimate trade into methods of betting on prices; and as no definite calculations could be made for the future, we should go back to the commercial gambling of the period of depreciated paper. In short, the fluctuations of silver since 1872, whatever the causes may be, unfit it for the very uses for which gold and silver were first selected. These fluctuations, moreover, have not been prevented by any aid that the United States could give by passing the Act of 1878, and coining silver. It was said by advocates of this measure that our action would raise the value of silver; on the contrary, the price has steadily kept below the value in 1878, and to-day it is selling below 50*d.* an ounce. There is no reason, therefore, for continuing our experiment on the ground that it can keep up the price of the metal. In fact, the adoption of a ratio in 1878 of 1 to 15.98, when the market rate in that year was 1 to 17.96, was a flagrant violation of all monetary laws. The changes in the value of silver would be still more evident had the line in the chart been based on monthly, instead of annual, averages.

Second. Our present policy discriminates against gold, as is shown by the extreme divergence of the mint (1: 15.98) from the market (1: 18.7) ratio. As the Act of 1878 originally passed the lower House of Congress, it contained a "Free Coinage" clause, by which any holder of silver bullion could have it coined into dollars at the mint. That is, eighty-five cents' worth of silver were to be given legal-tender power equal to one hundred cents of gold. That would immediately have sent gold out of the country. This "free coinage" provision was stricken out by the Senate, and the Treasury alone was permitted to present eighty-five cents in silver to be coined into a debt-paying dollar of one hundred cents, to an amount of not less than two million dollars a month. This machinery has delayed the transition from a gold to a silver standard, and made the present situation difficult of comprehension by the general public. It simply makes it necessary that the Treasury should be gorged before the silver can get out upon the community at large. Imagine a duct leading from the mints to a great open vat (the Treasury vaults); as the silver dollars stream through the duct, none, except by special efforts of the attendants, will get outside

until the vat is filled to the brim. To-day this vat is dangerously full, and is on the point of overflowing. The Treasury hitherto has paid principal and interest of United States bonds in gold, which has come in chiefly through the payment of customs. But now silver certificates (receipts for deposit of silver dollars) are received for duties and taxes, and thus the Treasury gets less gold and more silver. When the gold-fund is insufficient to pay called bonds and matured interest, and keep a gold reserve for three hundred and forty-six million of greenbacks, the Treasury must pay in silver, and we shall then be brought to a silver basis. So long as gold is steadily diminishing and silver steadily increasing in the hands of the Government, we can see the crisis approaching. Could any measure be better calculated to prevent the revival of business, and import uncertainty and distrust into the near future? There can be little doubt that the continued depression of business is more or less due to the inability to forecast the future, in view of the coming change from a gold to a fluctuating silver standard.

But how will gold disappear? The Treasury is the great reservoir of gold. If this fund runs out, and the Government pays only in silver, the banks will be unable to get gold reserves, because only silver funds will be coming in. But gold must be had for foreign payments; other nations are not affected by our law of legal tender. Gold will, therefore, bear a premium, and be treated as merchandise, not as a medium of exchange. Payments will be made in the cheapest metal, and silver will be the only coin in circulation. There was a road crossing a certain valley on an embankment under which a river passed. The opening in the embankment became closed, and the level of the river rose until it overflowed the road a few inches. People still crossed by this means, although the slight layer of water was very disagreeable; they saw clearly enough that the rising tide would soon stop all passage by the firm road, and that they must find a way of crossing solely by water. This is a picture of our own situation. The Act of 1878 has caused an accumulation of silver, and the payment by the solid medium of gold is becoming difficult because of the rising tide of silver in the Treasury. Soon the gold road will entirely disappear, and we shall be afloat on an uncertain and fluctuating sea of silver.

The moment a gainful premium exists on gold funds, what is to prevent one kind of legal payment which is now redeemable in

gold, namely, greenbacks, from being driven out of use by another and cheaper kind of legal payment—silver dollars? The actual result may be that, as soon as the premium appears, the greenbacks will be presented to the Treasury for redemption in gold. The presentation of one-third of $346,000,000 would exhaust the whole gold reserve of the Treasury. Of course this would result in a contraction of the currency until the vacuum was slowly filled by the regular coinage of $2,000,000 a month of silver.

Third. If the United States, after contracting to pay principal and interest of its debt in coin (and no silver dollars were in circulation from before 1850 to 1878, during which period our bonds were marketed), had given it to be understood that gold was the means of payment, how should we have regarded an act of Congress that took fifteen or eighteen per cent. out of the gold dollar, and paid our obligations with this debased coin? We have too long reviled "effete monarchies of the Old World" for this crime, to do the same thing ourselves. But this is exactly what we are about to do if we pay principal and interest of United States securities in silver coin worth fifteen or eighteen per cent. less than that "nominated in the bond." It would be a peculiar tax, taken from one class only, those who trusted the good faith of the Government, but levied upon them to buy silver to keep up the price for silver owners. Nothing could be more dishonest. It would be Mahoneism on a national scale.

Fourth. As soon as silver dollars become the only medium of exchange, it is axiomatic that they can finally be exchanged only for their intrinsic value. The local bank will not receive silver at the end of the day from the grocer on the corner as a deposit, and agree to pay back gold on demand. There will be silver accounts and gold accounts. The increasing mass of silver cannot be kept at par with gold, because there will be no place where silver can be exchanged for gold. As silver increases in quantity, it will fall to the level of its intrinsic value. Its legal-tender quality will not sustain it above this point, any more than it kept paper money from depreciating during 1862-79. Instead of measuring commodities, as now, in terms of one hundred cents in gold, we shall compare them with a unit worth eighty-five cents in gold. No one can claim that, under such conditions, prices will remain as they are now. But the case will be worse than this. The silver dollar is not likely to continue equal to eighty-five cents. It has been fluctuating in a lively manner of late. Prices, therefore, will be set high enough to cover any

possible fluctuations, and the buyer must pay higher prices than are indicated by the actual difference between the two standards. This will be a paradise for speculators. In short, it would be hard to devise a better means of clogging the wheels of industry. Foreign trade, moreover, would be disturbed. The importer of silk, who buys his goods in France for one hundred dollars in gold, can sell them in the United States only for silver. At ten per cent. profit he would have sold them for one hundred and ten dollars in gold; but under the silver standard he must sell them for as many silver dollars as would buy one hundred and ten gold dollars. In comparison with a gold standard of foreign countries, our silver dollars could be worth only their intrinsic value as bullion, and our prices would all be nominally higher.

Fifth. It is a matter of long experience, that wages of labor do not rise as rapidly as the prices of commodities. Capitalists are better able to adapt themselves to changes in their expenses of production than are laborers to changes in the prices of the articles they consume. When the prices of machinery or materials of manufacture rise, the employer promptly secures to himself the ordinary rate of profit by advancing the price of the finished goods. It is a different thing when the goods consumed by the laborer rise in price. The laborer finds that there is a certain custom as to the rate of money wages in his factory, and that it takes a long time to push home upon employers the fact that all the articles of his consumption — bread, meat, and clothing — have risen, while his money wages remain the same. During all the transition period from one standard to another, the working man will be the chief sufferer; and he will continue to suffer until by threats, by strikes, by combinations, he and his fellows succeed in getting an increase of wages. Until he can accomplish this, his daily wages will purchase less food, less clothing, less comforts, than before. The result will be to give additional profit to the capitalist. The very money-dealers themselves will prosper by a change from one standard to another.

It seems quite inexplicable, therefore, that a measure that must inevitably work a damage to business, introduce a fluctuating currency, impair the credit of the United States, drive gold from circulation, raise prices, and injure the laboring classes, can be allowed for a moment to remain on the statute-books.

J. LAURENCE LAUGHLIN.